

**REPORT OF THE AUDIT OF THE
BATH COUNTY
CLERK**

**For The Year Ended
December 31, 2007**



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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE BATH COUNTY CLERK

**For The Year Ended
December 31, 2007**

The Auditor of Public Accounts has completed the Bath County Clerk's audit for the year ended December 31, 2007. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$72,729 from the prior year, resulting in excess fees of \$71,354 as of December 31, 2007. Revenues increased by \$455,939 from the prior year and expenditures increased by \$383,210.

Report Comment:

- The County Clerk's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

Deposits:

The County Clerk's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the County Clerk's deposits in accordance with the security agreement. On July 5, 2007, the County Clerk's deposits were uncollateralized and uninsured by \$69,978.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Carolyn Belcher, Bath County Judge/Executive
The Honorable Carolyn Rogers, Bath County Clerk
Members of the Bath County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Bath County, Kentucky, for the year ended December 31, 2007. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2007, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated May 6, 2008 on our consideration of the Bath County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Carolyn Belcher, Bath County Judge/Executive
The Honorable Carolyn Rogers, Bath County Clerk
Members of the Bath County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Clerk's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Bath County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

May 6, 2008

BATH COUNTY
CAROLYN ROGERS, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2007

Revenues

State Grants \$ 5,350

State Fees For Services 5,234

Fiscal Court 2,410

Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers \$ 375,224

Usage Tax 526,395

Tangible Personal Property Tax 678,512

Other-

Marriage Licenses 3,479

Deed Transfer Tax 51,693

Delinquent Tax 365,288 2,000,591

Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts 8,804

Real Estate Mortgages 18,440

Chattel Mortgages and Financing Statements 46,959

Powers of Attorney 830

Affordable Housing Trust 16,148

All Other Recordings 10,759

Charges for Other Services-

Notary/VTR Preparation 6,287

Refunds 1,368 109,595

Interest Earned 1,306

Total Revenues 2,124,486

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 260,753

Usage Tax 511,058

Tangible Personal Property Tax 247,836

The accompanying notes are an integral part of this financial statement.

BATH COUNTY
 CAROLYN ROGERS, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2007
 (Continued)

Expenditures (Continued)

Payments to State: (Continued)

Licenses, Taxes, and Fees-

Delinquent Tax	\$ 23,479	
Legal Process Tax	14,362	
Affordable Housing Trust	<u>16,148</u>	\$ 1,073,636

Payments to Fiscal Court:

Tangible Personal Property Tax	65,595	
Delinquent Tax	39,008	
Deed Transfer Tax	<u>49,106</u>	153,709

Payments to Other Districts:

Tangible Personal Property Tax	338,318	
Delinquent Tax	<u>208,030</u>	546,348

Payments to Sheriff 3,040

Payments to County Attorney 55,489

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries 104,391

Employee Benefits-

Employer's Paid Health Insurance 21,607

Materials and Supplies-

Office Supplies 5,858

Other Charges-

Dues 800

Postage 310

Miscellaneous 1,432

Refunds 1,006

Library and Archives Grant 5,350

Tax Bills 2,157 142,911

The accompanying notes are an integral part of this financial statement.

BATH COUNTY
 CAROLYN ROGERS, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2007
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Capital Outlay-	
Office Equipment	<u>\$ 8,361</u>
Total Expenditures	<u>\$ 1,983,494</u>
Net Revenues	140,992
Less: Statutory Maximum	<u>66,038</u>
Excess Fees	74,954
Less: Expense Allowance	<u>3,600</u>
Excess Fees Due County for 2007	71,354
Payments to Fiscal Court - March 13, 2008	<u>63,900</u>
Balance Due Fiscal Court at Completion of Audit	<u><u>\$ 7,454</u></u>

The accompanying notes are an integral part of this financial statement.

BATH COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2007 services
- Reimbursements for 2007 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2007

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

BATH COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2007
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent for the first six months and 16.17 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Bath County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The Bath County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of July 5, 2007, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the County Clerk's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$69,978

BATH COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2007
(Continued)

Note 4. Grant

The County Clerk's office received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$5,350 on July 2, 2007 to purchase a plat cabinet. The grant was to be completed by June 30, 2008. On August 1, 2007, all funds were expended on the grant. The grant balance was \$0 as of December 31, 2007.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Carolyn Belcher, Bath County Judge/Executive
The Honorable Carolyn Rogers, Bath County Clerk
Members of the Bath County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Bath County Clerk for the year ended December 31, 2007, and have issued our report thereon dated May 6, 2008. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bath County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The County Clerk's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

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Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Bath County Clerk's financial statement for the year ended December 31, 2007, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Bath County Clerk's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the County Clerk's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Bath County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

May 6, 2008

COMMENT AND RECOMMENDATION

BATH COUNTY
CAROLYN ROGERS, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2007

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY:

The County Clerk's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

The County Clerk's office has a lack of adequate segregation of duties over receipts and disbursements. All employees of the Clerk's office collect receipts. The County Clerk or assigned deputy prepares the daily bank deposit and daily checkout sheet and then posts items to the receipts ledger. The County Clerk also prepares the quarterly financial report and bank reconciliations that are agreed to the receipts and disbursements ledgers. The Clerk or a deputy prepares checks for all disbursements and posts to the disbursements ledger. The Clerk and one of her deputies are authorized to sign checks. The Clerk does not require dual signatures on checks. Good internal controls dictate that the same employee should not handle, record, and reconcile receipts and disbursements. The County Clerk should document that she is performing the following steps to strengthen internal controls:

- The Clerk should periodically compare the daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger when prepared by another employee. Any differences noted should be reconciled.
- Someone independent should review the quarterly financial report and compare amounts reported to the receipts and disbursements ledger when prepared by the Clerk.
- Bank accounts should be reconciled regularly and reviewed by someone independent of recording to ledgers.
- Dual signatures should be required on all checks, with the Clerk being one of the required check signers.
- A restrictive endorsement should be placed on incoming checks as soon as they are received.

County Clerk's Response:

I do have a third party helping me with reports, but didn't have her sign. I am now. I ordered "deposit only" stamps today for the front line. Will start today with dual signatures.

